
**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
POLICY SUBCOMMITTEE
OF THE
INVESTMENT COMMITTEE**

MINUTES OF MEETING

October 20, 2008

A meeting of the Policy Subcommittee was held on Monday-Tuesday, October 20-21, 2008, at the Embassy Suites Hotel, 333 Madonna Road, San Luis Obispo, California.

The meeting was called to order at approximately 5:05 p.m. and the following members were present:

Henry Jones, Chair
George Diehr, Vice Chair
Louis F. Moret
Anne Sheehan
Charles Valdes

Other Board members present:

John Chiang, represented by Terry McGuire
Rob Feckner
Kurato Shimada

AGENDA ITEM 2 – APPROVAL OF THE AUGUST 2008 MEETING MINUTES

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to approve the August 18, 2008 meeting minutes as presented.

AGENDA ITEM 3 – TOTAL FUND, Policy on Divestment

Anne Stausboll, Interim Chief Investment Officer, presented the item.

Allan Emkin presented a Divestment Research Report – Historical Analysis of Divestment Related Policies and Legislative Framework prepared by Pension Consulting Alliance (PCA).

Staff presented three conceptual options to approach the divestment issue and two conceptual options to approach related constructive engagement issues.

Peter Mixon, General Counsel, provided an outside fiduciary counsel analysis of the proposed alternative policies and stated that adoption of any of the proposed options would be appropriate within the legal construct.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to direct staff to return to the Subcommittee in December with a draft policy that: requires CalPERS to divest or underweight an investment in cases where it concludes that continued ownership of the investment is no longer prudent, or, in the case of a new investment, would be imprudent. This proposed policy will also include a statement that CalPERS favors constructive engagement over divestment.

AGENDA ITEM 4 – SYNTHETIC ENHANCED EQUITY STRATEGY

Eric Baggesen, Senior Investment Officer-Global Equity, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Subcommittee.

At the August and October 2008 Investment Committee meetings, staff presented the rationale for the Global Equity team to manage a new enhanced equity portfolio in partnership with the Fixed Income team. The strategy involves combining a portfolio of undervalued fixed income securities with an equity index derivative position to provide an enhanced return. The strategy would be managed with a finite life expectation of three years. In October, the Committee approved immediate implementation of the program upon approval by the Policy Subcommittee of the pertinent policies, with Committee ratification of the policies at the next Committee meeting. Staff presented the pertinent policy revisions to implement the strategy.

On **MOTION** by Mr. Moret, **SECONDED** and **CARRIED** to recommend to the Investment Committee ratification of the following revised Statements of Investment Policy:

- Low Duration Fixed Income
- Internally Managed Global Enhanced Equity Strategies
- Development of Derivatives Strategies

The meeting recessed at 5:20 p.m.

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The meeting reconvened at approximately 8:30 a.m. on October 21, 2008.

The following members were present:

Henry Jones, Chair  
George Diehr, Vice Chair  
Louis F. Moret  
Anne Sheehan  
Charles Valdes

Other Board members present:

John Chiang, represented by Terry McGuire  
Bill Lockyer, represented by Grant Boyken  
Priya Mathur  
Tony Oliveira

## **POLICY REVIEW AND CONSOLIDATION PROJECT**

Anne Stausboll, Interim Chief Investment Officer, reviewed the history of the Policy Review and Consolidation Project and outlined the project objectives to:

- Organize and streamline Investment Policy to improve access, clarity and transparency
- Provide a consistent Investment Policy framework
- Ensure that the policies facilitate the ongoing CalPERS compliance program

Agenda Item 5 (below) reflects the results of the review of policies within the Real Estate Program category of the Policy Manual. A phased review of all policies is ongoing and will be completed in 2009.

### **AGENDA ITEM 5 – ADOPTION OF POLICY ON REAL ESTATE AND REPEAL OF RELATED EXISTING POLICIES**

Randy Pottle, Senior Portfolio Manager; Jim Hurley, Portfolio Manager; and Mark Bullen, Investment Officer, presented the item.

Nori Gerardo Lietz, PCA – Real Estate Advisors, and Andrew Junkin, Wilshire Associates, were available to respond to questions from the Subcommittee.

Review of the Real Estate policies was a joint effort and included input from the Wilshire Associates, PCA – Real Estate Advisors, the CalPERS Legal Office, and the Enterprise Office of Compliance.

During late 2007 and early 2008 staff completed a review of existing policies per the parameters of the Real Estate Strategic Plan and the Policy Review and Consolidation Project. At the June 2008 Policy Subcommittee meeting, staff recommended development of a single overarching real estate policy as it believes the approach will provide more effective policy directives and controls on investment activities. Staff detailed where the content of existing policies will reside after the Policy Review and Consolidation Project is complete and highlighted the key changes. The new policy is comprehensive in scope and incorporates changes necessary to implement the Strategic Plan. A transition plan and timelines were presented.

There was an in-depth discussion and the Subcommittee provided input on a broad range of issues.

On **MOTION** by Ms. Sheehan, **SECONDED** and **CARRIED** to approve the First Reading of the Statement of Investment Policy for Real Estate.

A Second Reading of the policy will be scheduled for the December Subcommittee meeting.

#### **AGENDA ITEM 6 – 2008 ANNUAL AGENDA ITEM CALENDAR**

The Subcommittee accepted the Annual Agenda Item Calendar as presented.

#### **AGENDA ITEM 7 – DRAFT AGENDA FOR DECEMBER 2008**

The Subcommittee accepted the proposed December 15, 2008 agenda, with the addition of the Real Estate Policy Second Reading and presentation of the proposed Divestment Policy.

#### **AGENDA ITEM 8 – PUBLIC COMMENT**

There were no public comments.

The meeting was adjourned at 9:10 a.m.

The next Subcommittee meeting is scheduled for December 15, 2008 at a time to be determined in Sacramento, California.